

# Consolidated Annual Report

## Tallinn Airport Ltd

The group's main field of activity is provision of air transport and ground services.

Beginning of financial year:	01.01.2008
End of financial year:	31.12.2008
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Auditor:	Ernst & Young Baltic AS
Attached documents:	Auditor's report Profit allocation proposal

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## MANAGEMENT REPORT

The Management Report of Tallinn Airport Ltd has been prepared on the basis of consolidated financial indicators. The company's fields of activities under EMTAK codes:

- code 52231 – airfield and airport terminal-related activities;
- code 52239 – other air transport service activities;
- code 52211 – parking lot-related activities.

### General information on the company

Tallinn Airport Ltd, the parent company of the group, manages and develops the airports owned by the company, and provides services to companies operating at the airport. The shares of the airport are held by the Republic of Estonia; the company lies within the jurisdiction of the Ministry of Economic Affairs and Communications of the Republic of Estonia.

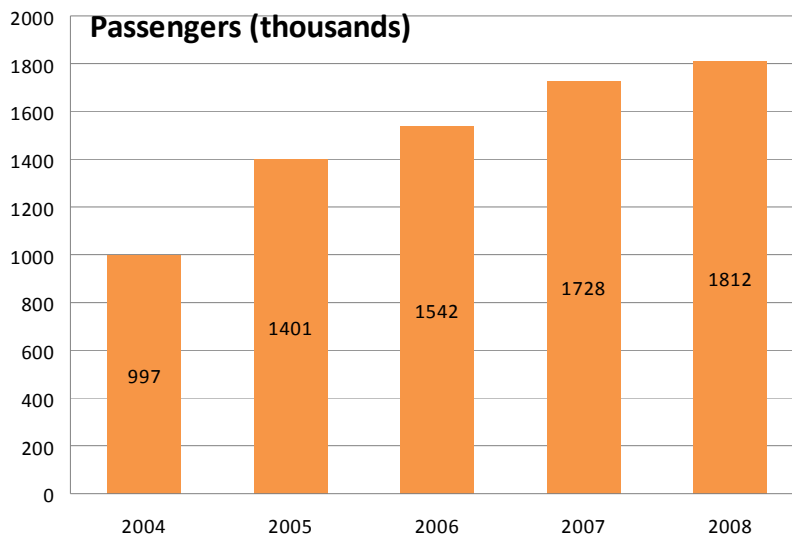
Pursuant to Regulation No. 782-k of the Government of the Republic of Estonia from 27 October 2004, Pärnu Airport, Tartu Airport, Kuressaare Airport and Kärdla Airport united with Tallinn Airport Ltd in 2005. Kuressaare Airport controls a grass airfield on Ruhnu island, and Pärnu Airport a similar airfield on Kihnu island.

Regional airports are necessary for implementing the regional transportation policy, and have not been designed to serve as money-generating units. In 2008, the state allocated 13 million kroons for covering the operating expenses of these airports (12 million kroons in 2007).

The consolidation group includes Tallinn Airport Ltd's subsidiary AS Tallinn Airport GH which organises ground servicing of aircrafts at the Tallinn Airport. The company was established by Tallinn Airport Ltd on 28 December 2005 with the purpose of enhancing flexibility and quality of its partner services with the clear aim of guaranteeing sustainability of the management of the rights and obligations of the companies handling ground servicing of aircrafts at Tallinn Airport and separating the revenue from and expenses on the main activities of the airport.

### Operating results

#### Number of passengers



Tallinn Airport serviced 1.8 million passengers in 2008. Passenger numbers grew by 5% in 2008, compared to 2007 (12% in 2007 compared to 2006).

The number of passengers on domestic flights amounted to 21 thousand in 2008 (1.2% of the total number as in 2007).

On regular flights, the number of passengers grew by 2% during the year (9% in 2007, compared to 2006).

On chartered flights, passenger numbers grew by 19%. Charter flight passengers thus made up 17% of the total number of passengers (15% in 2007).

In 2008 global aviation market was influenced by the increase of fuel prices due to the record level of gas world market prices in summer period and by the economical and financial crises that followed. This affects directly the airlines flying to Tallinn Airport as well as the passengers' demand for aviation services. The following significant changes in regular flights occurred in 2008:

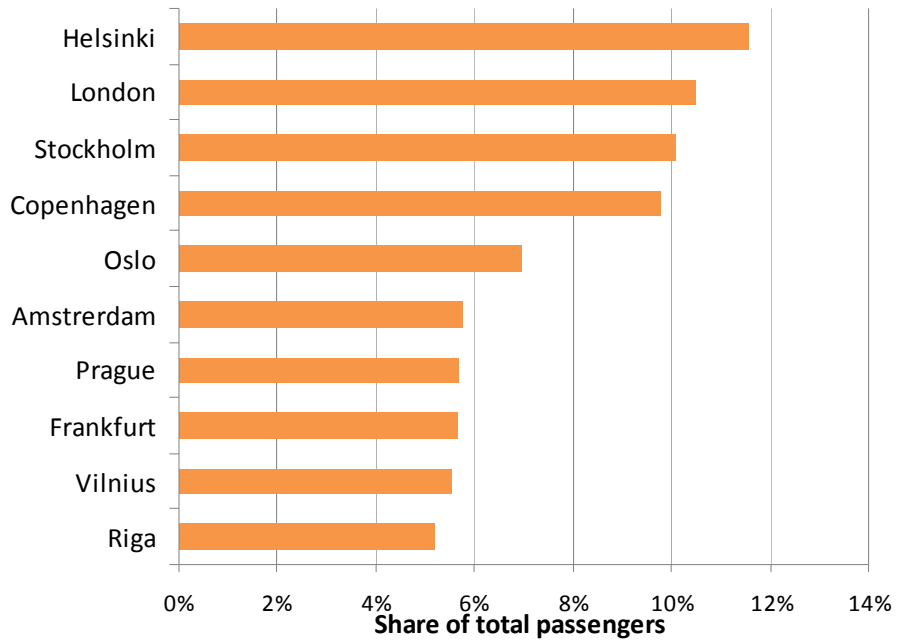
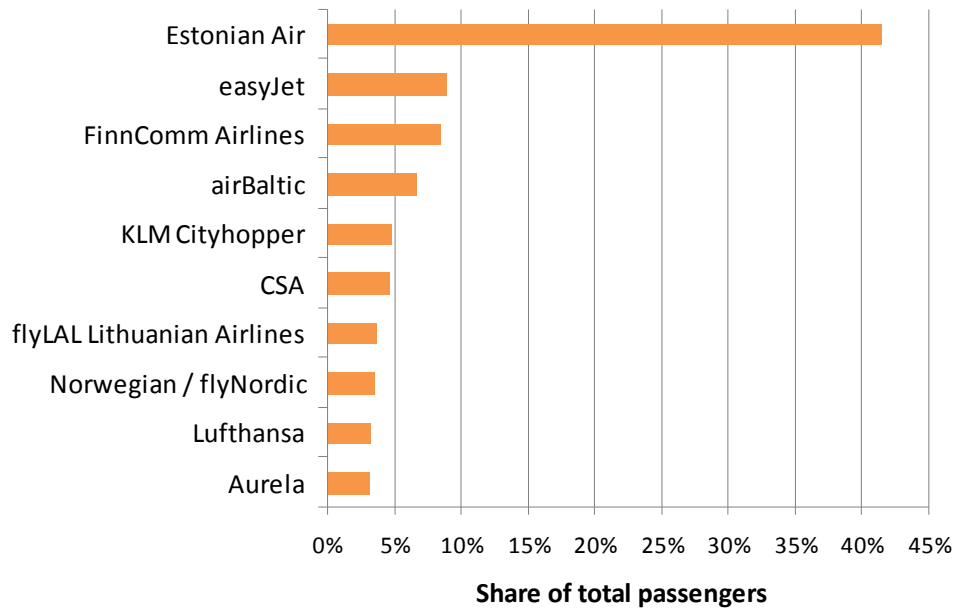
- Two new regular flights were opened from spring-summer flight plan: Minsk and Munich, as well as seasonal flight to Rome (Estonian Air);
- Regular flights were suspended by SAS and FlyLaL – Lithuanian Airlines;
- Flights to Warsaw (LOT Polish Airlines) and to Berlin (easyJet) were suspended in winter season.

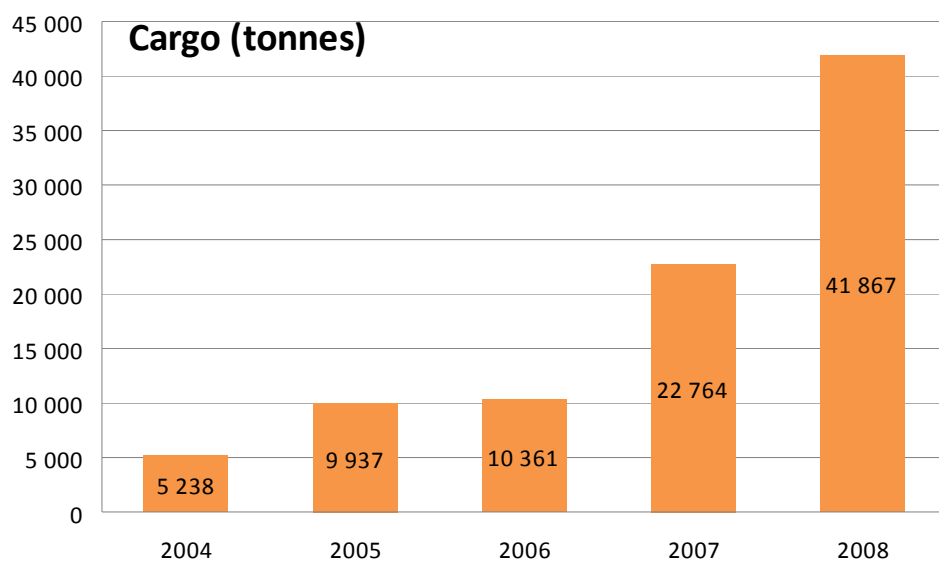
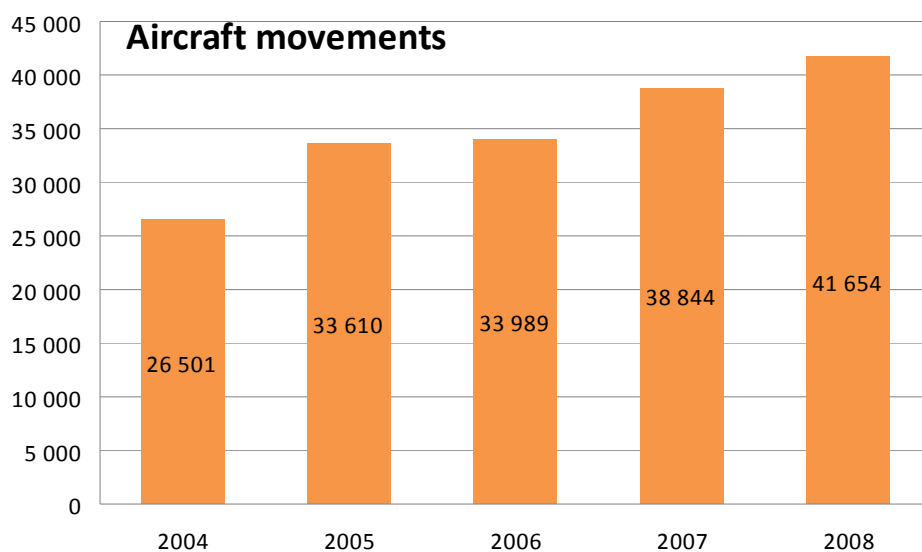
To ensure the competitiveness of the airport in the region, landing charge was lowered from 177 kroons to 155 kroons per aircraft MTO. Since 01.11.2008 passenger charge was lowered from 155 kroons to 124 kroons.

Since 01.01.2009 charges were changed on domestic flights: new passenger charge is to be 110 kroons (up to now it was 60 kroons) per leaving passenger and new landing charge is to be 105 kroons (until now 60 kroons) per aircraft every MTO ton.

According to fixed budget, a total of 1,6 million passengers will pass through the Estonian aerial gate in 2009 which is 11% less compared to the previous year. During the months following the fixation of the budget, many significant changes of airlines plans have been disclosed, like the Dutch airline KLM Cityhopper giving up the servicing of Tallinn-Amsterdam flight as well as Norwegian Air Shuttle giving up the servicing of Tallinn-Stockholm flight, which affect the fulfilment of the budget. Therefore passenger number decrease can be bigger than estimated. Management Board is therefore continuously focusing on decreasing costs in order to guarantee sustainability of organisation and its ability to service loans.

Since 01.04.2009 a new charge will be implemented at Tallinn Airport – aviation security charge, which will be 45 kroons per leaving passenger. From the same time period passenger charge will be lowered to 110 kroons and on domestic flights to 65 kroons.

**Share of passengers by 2008 destinations (top 10)****Share of passengers by airlines (top 10) in 2008**

**Cargo 2004-2008****Number of flight operations 2004-2008****Main service groups****Passenger service in the passenger terminal**

Tallinn Airport uses the passenger charge to cover the following expenses: capital expenditure, financial expenses, maintenance expenses and utility expenses on passenger terminal halls and passenger gates, administrative and sanitary areas, and passenger platform in front of the terminal, security surveillance expenses as well as pre-flight security inspection, border guard and customs

expenses, and expenses on miscellaneous equipment. The passenger charge also includes the bus transport to the aircraft.

Since 01.04.2009 passenger charge will be lowered to 110 kroons per passenger and new aviation charge – security charge will be implemented which is 45 kroons per passenger. Security charge will cover the expenses of preflight security in passenger terminal as well as in other points of entry, the expenses of securing airfield territory and patrol, capital- and financial expenditure related to security.

Revenue generated from passenger charges increased 1,6 % compared to 2007, number of passengers increased 5%. The difference is due to passenger charge reducing since November 1 in 2008.

### **Aircraft landing, takeoff and parking services**

Tallinn Airport uses the landing and parking charge to cover the following expenses: runway, taxiway, docks, lane and dock maintenance expenses, expenses on landing systems, radio navigation systems, beacons, meteo, rescue service, environmental protection, security and aviation safety as well as ground flight control.

The landing charge is calculated on the number of tons landed. Tallinn Airport has established a landing charge of 155 kroons per ton.

Landing charges revenue increased 10% compared to 2007 and this increase was due to cargo growth (growth 84% compared to 2007). Aircraft parking revenue increased 36,5% compared to the previous year and this increase was mainly due to cargo aircrafts parking.

### **Ground handling of aircrafts; passenger and luggage service**

Ground handling of aircrafts depends on the needs of the airline and involves various services such as aircraft guiding and de-icing, electricity and water supply, toilet services, cleaning, etc.

Passenger service involves check-in and luggage handling.

Tallinn Airport Ltd's subsidiary AS Tallinn Airport GH and AS Estonian Air provide the above services at Tallinn Airport.

As of today, Estonian Air has announced to end the aircraft ground handling service as well as passenger and luggage services. For the time being, AS Tallinn Airport GH will provide the abovementioned services.

### **Car parking in the public area**

Car parking service is available in 2 types of parking lots: "short term" and "long term parking". The difference is in hourly price. There is a separate parking lot for rental cars and tenants of Tallinn Airport facilities.

Parking revenue increased 20 % due to increase of short term parking price and increase of passenger numbers.

### **Rent and concessions**

Passenger terminal space rental – we lease out space for stores, caterers, tourist agencies, airlines, currency exchange points and car rental companies. Most of the revenue from concessions is made up of trade revenue.

Concessions are paid by trade- and catering companies who pay the agreed percentage of the turnover generated at airport.

Revenues from concessions have increased by 20% which is related to the growth in passenger numbers as well as to the coming of new trade partners to passenger terminal new premises.

### **Advertisements**

Most of the advertising space for sale is located in the passenger terminal. Advertisement sales increased by 5,2% during the financial year.

### **Other important services:**

- Corporate customer service in the restricted area of the passenger terminal;
- Passenger luggage store;
- Cargo terminal space rental;
- Utility services.

### **Investments**

#### **Most significant investments made in 2008 at Tallinn Airport**

##### Rehabilitation of the airside area

The total cost of rehabilitation of the Tallinn Airport airside area amounted to 670 million kroons. The construction work was co-financed in the amount of 457 million kroons by the EU Cohesion Fund.

The project objective was to improve the environmental condition and implement environment protection measures at the Tallinn Airport and its immediate vicinity, as well as to increase safety on the airside area in accordance with the international civil aviation standards and requirements.

The contract for supervision of the airside area was concluded on 14.08.2006 and the contract for construction on 23.08.2006. The construction work was performed by a consortium, represented by AS Talter, and including Lemminkäinen Oyj, AS Eesti Ehitus, AS Aspi, AS Teede REV-2. The engineering services were provided by a consortium, represented by Ramboll Finland Oy, and including AS Teede Tehnokeskus and AS Telora-E.

The project involved the following works:

- construction of a storm water treatment plant in West zone; construction of 3,700 m<sup>3</sup> containers, a pumping station and separators; construction of a water quality monitoring point and a connection to the public sewerage system mains;
- construction of a water quality monitoring station in the South zone: construction of monitoring points on the drainage ditch in the South zone, and on the public drainage ditch outside the airport premises (a total of 2 monitoring points);
- reconstruction of the storm water collection system on the apron; creation of facilities for separate collection of storm water polluted with runway and aircraft de-icing chemicals;
- remediation and storage of polluted soil under the old maintenance yard: a total of 5,000 m<sup>3</sup> of soil;
- reconstruction and expansion of the apron, reconditioning of the asphalt and concrete pavement;

- establishment of aircraft docks on the apron: associated marking and electrical installations; power supply for aircrafts, and the associated marking;
- extension of the taxiway; pavement of the taxiway and construction of the water collection system, installation of lighting, marking and direction guides;
- construction of an area designed for fire drills (an area of approximately 5,000 m<sup>2</sup>);
- levelling and landscaping (90,000 m<sup>2</sup>);
- installation of a new temperature monitoring equipment on the existing runway.

#### Upgrading of the passenger terminal according to EU and Schengen Agreement requirements

The budgeted cost of the Tallinn Airport passenger terminal development project amounted to 646 million kroons. The construction works were co-financed in the amount of 379 million kroons by the EU Cohesion Fund.

The contract for supervision was concluded with a consortium, represented by AS Telora-E, and including Ramboll Finland OY on 14.09.2006. The contract for construction was concluded with AS Skanska EMV on 25.09.2006.

The main objective of the passenger terminal expansion project was to enhance air traffic reliability and to create an infrastructure which complies with the requirements established for countries joining the Schengen Agreement. It is important that we increase aviation safety to meet the international civil aviation standards and requirements, and create the facilities required for veterinary and phyto-sanitary inspection.

In the course of construction, which was launched in October 2006, we upgraded and extended the terminal building by 18 meters at its north and south ends, constructing a walkway perpendicular to the terminal (forming a T-shape) to connect the gates. The protruding part of the terminal has been designed to allow grade-separated traffic for international passengers. The building perpendicular to the terminal has been equipped with 9 passenger gates. The extensions at both ends of the terminal have been designed as additional space for check-ins and arriving luggage claims. Approximately 14,000 m<sup>2</sup> of space was added, pre-flight passenger and luggage inspection systems were added and renewed, existing technical systems and networks were renovated.

#### **Other significant investments**

Border inspection point 20,1 million kroons, fire and rescue building 7,1 million kroons, aircraft hangar for maintenance 2,6 million kroons, CUTE system for passenger check-in 6,5 million kroons, hangar for small aircrafts 3,6 million kroons, heavy rescue equipment container for fire and rescue department 3,8 million kroons, runway cleaning equipment 17,3 million kroons, renovation of boiler house 1,4 million kroons, patrol pavement 2,9 million kroons.

#### Investments in 2009

Cargo terminals III and IV will be completed, in total amount of 43 million kroons, new instrumental landing system will be set up in the amount of 17 million kroons.

#### **Investments in regional airports**

In 2008 most of the investments were made in Tartu Airport: extension of airside area which included the extension of runway up to 1800 meters, reconstruction of control tower which now corresponds to all international requirements, the project for reconstructing passenger terminal was completed, hangar project and projects for garage and FRS hall were ordered. Investments in total amounted to

45 million kroons. In 2008 the works for reconstructing runway lighting system were initiated, the works will be completed by May this year.

Due to the abovementioned investments, Tartu airport will reach the level of being able to be open for international flights by the fall of 2009. New runway lights will be completed, airside extension project will be completed, terminal, hangar and fire station renovation and building will be initiated. New fire truck and baggage cart will be purchased. In total the investments in Tartu airport in 2009 will amount over 80 million kroons.

In 2009 important investments will be made in Kuressaare Airport. Airside extension and reconstruction is planned, extending runway to 1800 meters, completion of bordering fence and installation of new meteo equipment are planned. In total investments are planned for 60 million kroons

At Kärdla Airport passenger terminal will be renovated, new security equipment will be installed. In total 12,2 million kroons will be invested.

In addition different equipment etc will be purchased for several airports. In total the investments in regional airports in 2009 will amount to 159,4 million kroons. Investments will be financed in 100% by EU aid funds.

### **Resources management — human resources**

In 2008 an important turn in the behaviour of labour market occurred. When the first half of 2008 saw the continuous lack of labour force and growth of salary levels, the second half of the year witnessed a more conservative approach by the employees as well as by the employers. The last quarter of the year saw the growth of unemployment.

The general labour market situation was characterised by a low unemployment rate and a continual pressure on wage increase

Objectives established related to staff resource planning for 2009:

- rearrangement of works and planning of optimal staff by the end of reconstruction period;
- optimization of management structure and planning for labour necessity of 2009;
- maintaining the stable staff;
- recruitment of suitable employees for new positions;
- guaranteeing the competence required for the position.

### **Wages and salaries 2008**

The average number of employees in 2008 amounted to 414, including the average of 82 in AS Tallinn Airport GH.

Total wages and salaries for 2008 amounted to 96 537 thousand kroons (2007: 78 584), social- and unemployment insurance taxes 32 582 thousand kroons (2007: 26 778).

A total of 451 thousand kroons (in 2007: 477 thousand kroons) was paid in remuneration to the members of the Supervisory Board of Tallinn Airport Ltd.

The members of the Management Board of Tallinn Airport Ltd received 3 504 thousand kroons in remuneration in 2008 (in 2007: 3 089 thousand kroons).

### **Staff flow**

In 2008 the group staff flow was 15 %, in 2007 16 %.

77 new employees were recruited in 2008. Employment contracts were terminated with 95 employees (69 in 2007), including 35 on the employee's own initiative (41 in 2007); 19 temporary staff member agreements lapsed in the period (24 in 2007)

### **Staff training**

Staff training and development focused on service objectives, renewing of service strategy and improvement of service quality. All management levels, starting from top management to front-line employees were engaged in the project. Project was launched in April and ended in December 2008. 132 employees participated in the trainings. Project is planned to resume in 2009.

At top level management the focus was on renewing service strategy, introducing the best practices of worlds airports and the possibility of implementing those practices at Tallinn airport. In the centre of attention was the cooperation with partners to unify service standards and to specify expectations as customer satisfaction is influenced by the service quality of all parties.

For the same purpose, a training session for in-house trainers was carried out, about in-house training role in quality assurance.

In order to preserve specific competences, a mandatory position-specific enrichment trainings were carried out:

- the carrying out of fire-and rescue works (incl. fire stimulator);
- AT (air traffic) informer training for renewing their licence;
- Drivers qualification training enrichment training;
- First Aid training, 20 participants;
- Pursuant to ESARR 5 and Regulation No. 96 of the Minister of Economic Affairs and Communication from 22 August 2005, the working checks of ATC controllers competences.

For development of the safety and crisis management system, specialists in the corresponding area participated in enrichment training sessions organised by international aviation organisations (IATA, ICAO, ACI):

- Airport Certification and Standards;
- ACI Global Aviation seminar
- ACI World Safety and Technical Committee Meeting;
- Aviation Safety Instructors training for carrying out audits;
- Airport Emergency Planning and Management Course;

In aviation safety and security areas the most important trainings :

- Training of evacuation managers and carrying out evacuation exercise;
- Security training for all employees and representatives of partners

### **Management system of the group**

The management system of Tallinn Airport Ltd complies with the requirements of the international ISO 9001:2000 and ISO 14001:2004 standards. The compliance certificates have been issued by the certification company Bureau Veritas Estonia.

Tallinn Airport management system includes:

- activities on the Tallinn Airport premises;
- passenger service;
- ground service of aircrafts;
- airfield maintenance and operation;
- aviation safety and security-related activities.

One of the main objectives for Tallinn Airport Ltd is to take responsibility for the surrounding environment. Therefore, the following main activity-related environmental aspects were included in the ISO 14001:2004 management system:

- land use and construction activity;
- energy and natural resource exploitation;
- noise and radiation;
- pollutants into ambient air;
- waste generation;
- use of chemicals.

Establishment of environmental objectives, their continual assessment and performance of the resulting tasks enables to ensure the efficiency of Tallinn Airport Ltd's environmental activities.

In 2006, Tallinn Airport Ltd established a subsidiary Tallinn Airport GH which handles the ground servicing of passengers and aircrafts. The Tallinn Airport management system has also been implemented in AS Tallinn Airport GH. The management system regulates:

- activities on the Tallinn Airport premises;
- passenger service;
- ground service of aircrafts.

The compliance certificates were issued to AS Tallinn Airport GH on 31 July 2006.

## FINANCIAL STATEMENTS

### Management representation to the financial statements

The Management Board take responsibility for the correctness of the preparation of the financial statements 2008 of Tallinn Airport Ltd and its subsidiary, set out on pages 13-52, and confirm that, to the best of their knowledge:

- the accounting principles and basis of estimations used in preparing the financial statements are in compliance with the International Financial Reporting Standards (IFRS);
- the financial statements give a true and fair view of the financial position of the Tallinn Airport Ltd Group, and the results of its operations and cash flows;
- material circumstances, which became evident before the date of preparation of the financial statements have been appropriately accounted for and presented in the financial statements;
- Tallinn Airport Ltd and its subsidiaries are able to continue as a going concern.

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Chairman of the Management Board / Rein Loik

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Member of the Management Board / Aarne Orav

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Member of the Management Board / Einari Bambus

**Consolidated balance sheet**

in thousands of kroons	31.12.2008	31.12.2007	Note
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	214 895	53 111	1
Derivative instruments	0	5 027	2
Receivables	44 423	155 734	3
Prepayments	2 260	1 359	4
Inventories	545	1 562	5
<b>Total current assets</b>	<b>262 123</b>	<b>216 793</b>	
<b>Investment property</b>	<b>440</b>	<b>466</b>	<b>7</b>
<b>Non-current assets</b>			
Property, plant and equipment	2 105 347	1 364 978	8
Intangible assets	10 773	12 113	9
<b>Total non-current assets</b>	<b>2 116 120</b>	<b>1 377 091</b>	
<b>TOTAL ASSETS</b>	<b>2 378 683</b>	<b>1 594 350</b>	
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	97 413	37 501	10
Embedded derivative	9 478	0	2
Payables	183 955	168 888	12
<b>Total current liabilities</b>	<b>290 846</b>	<b>206 389</b>	
<b>Non-current liabilities</b>			
Long-term borrowings	540 883	257 477	10
Long-term provisions	0	3 154	16
Government grants allocated for property, plant and equipment	949 950	547 001	17
<b>Total non-current liabilities</b>	<b>1 490 833</b>	<b>807 632</b>	
<b>TOTAL LIABILITIES</b>	<b>1 781 679</b>	<b>1 014 021</b>	
<b>OWNER'S EQUITY</b>			
Share capital	359 859	359 859	18
Mandatory reserve	35 986	22 855	
Retained earnings	184 484	95 100	
Profit for the financial year	15 675	102 515	
<b>TOTAL OWNER'S EQUITY</b>	<b>597 004</b>	<b>580 329</b>	
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>2 378 683</b>	<b>1 594 350</b>	

**Consolidated income statement**

in thousands of kroons	2008	2007	Note
<b>REVENUE</b>			
Revenue	427 276	387 819	19
Government grants allocated for property, plant and equipment	36 173	11 419	17,19
Government grants allocated for operating expenses	13 000	12 000	19
Other income	3 583	4 482	19
<b>TOTAL REVENUE</b>	<b>480 032</b>	<b>415 720</b>	
<b>EXPENSES</b>			
Goods, raw materials and services	141 999	102 204	20
Other operating expenses	20 557	11 906	20
Personnel expenses	129 119	105 362	20
Depreciation of non-current assets	142 799	89 301	20
Other expenses	1 528	1 080	20
<b>TOTAL EXPENSES</b>	<b>436 002</b>	<b>309 853</b>	
<b>OPERATING PROFIT</b>	<b>44 030</b>	<b>105 867</b>	
Financial income	-17 835	-8 652	21
Financial expenses	-9 520	5 313	21
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>16 675</b>	<b>102 515</b>	

**Consolidated cash flow statement**

in thousands of kroons	2008	2007	Note
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Receipts from customers	622 734	400 442	
Amounts paid to suppliers and personnel	-450 722	-247 525	
Fund yield and interest received	2 749	1 927	
Interest paid	-11 329	-7 384	
Government grants	13 000	12 000	
<b>Total cash flow from operating activities</b>	<b>176 431</b>	<b>159 460</b>	
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	-872 195	-481 192	8
Proceeds from disposals of property, plant and equipment	639	345	8c,19
<b>Total cash flow from investing activities</b>	<b>-871 556</b>	<b>-480 847</b>	<b>8c</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Loan repayment	-36 480	-36 480	10
Loans received	375 518	125 173	10
Government grants received	517 871	239 590	17a
<b>Total cash flow from financing activities</b>	<b>856 909</b>	<b>328 282</b>	
<b>TOTAL CASH FLOW</b>			
	<b>161 784</b>	<b>6 895</b>	
Cash and cash equivalents at the beginning of the period	53 111	46 216	1
Cash and cash equivalents at the end of the period	214 895	53 111	1
<b>Change in cash and cash equivalents</b>	<b>161 784</b>	<b>6 895</b>	

Cash and cash equivalents in the cash flow statement correspond to the cash and cash equivalents in the balance sheet.

**Consolidated statement of changes in equity**

<b>In thousands of kroons</b>	<b>Share capital</b>	<b>Mandatory reserve</b>	<b>Retained earnings</b>	<b>Total owner's equity</b>
<b>Owner's equity as of 31.12.2006</b>	<b>144 872</b>	<b>22 855</b>	<b>310 087</b>	<b>477 814</b>
Profit for 2007	0	0	102 515	102 515
Bonus issue	214 987	0	-214 987	0
<b>Owner's equity as of 31.12.2007</b>	<b>359 859</b>	<b>22 855</b>	<b>197 615</b>	<b>580 329</b>
Profit for 2008	0	0	16 675	16 674
Reserve increase	0	13 130	-13 130	0
<b>Owner's equity as of 31.12.2008</b>	<b>359 859</b>	<b>35 986</b>	<b>201 159</b>	<b>597 004</b>

Additional information on owner's equity has been disclosed in Note 18.

## Accounting principles and basis of estimations

### General information

Tallinn Airport Ltd was established in the Republic of Estonia on 30 December 1997 on the basis of the assets of the Tallinn airport of the state enterprise Eesti Lennujaamad. The company is fully owned by the Republic of Estonia.

Pursuant to the general public sector accounting rules which entered into force on 1 January 2005, the business and financial reporting of a state subsidiary must adhere to the accounting principles specified in the above rules. The general public sector accounting rules are based on the generally accepted accounting principles of Estonia, as well as the International Public Sector Accounting Standards (IPSAS). IPSAS is based on the International Financial Reporting Standards (IFRS). The generally accepted accounting principles of Estonia have been harmonised, to a material extent, with IFRS.

The Annual Report, prepared by the Management Board, approved by the Supervisory Board and including the financial statements, is approved by the General Shareholder's Meeting in accordance with the Commercial Code of the Republic of Estonia. Shareholders have the right not to approve the Annual Report prepared by the Management Board and approved by the Supervisory Board, and demand preparation of a new Annual Report and its submission to the General Shareholders' Meeting.

### Accounting principles and basis of estimations

The consolidated financial statements of Tallinn Airport Ltd and its subsidiary (hereinafter jointly the "Group") have been prepared in accordance with the International Financial Reporting Standards (IFRS). In cases where IFRIC allows choosing between several alternative accounting principles, implementation of the principle is based on the general public sector accounting rules (provided that these comply with the allowed alternative in IFRS).

The consolidated financial statements have been prepared in Estonian kroons, on a historical cost basis, unless otherwise stipulated in the accounting principles described below (e.g. certain investment property and derivative instruments are recorded at fair value).

The parent company's unconsolidated financial statements (see note 25) have been prepared in accordance with the Accounting Act of the Republic of Estonia, and do not constitute parent company's separate financial statements in the meaning of IAS 27 "Consolidated and separate financial statements". Parent company's unconsolidated financial statements have been made in accordance with GAAP, which for parent company does not differ from accounting principles which have been used for completing group financial statements, except for the investments in subsidiaries.

### Changes in accounting principles

Consolidated financial statements have been made according to the principles of consistency and comparability. This means that the group will always follow the same accounting principles and presentation. Accounting principles and presentation will be changed only when required with new or changed international financial reporting standards (IFRS) and their interpretations or if new accounting policy and/or presentation enables more objective overview of group financial status, financial results and cash flow.

- a) **Changed international financial reporting standards, new international financial reporting standards and the interpretations of International Financial Reporting Interpretations Committee (IFRIC)**

Accounting principles and presentation used in current financial statements are in accordance with the principles implemented in previous financial year. Besides, the following new/changed standards have been approved, which did not have significant impact on financial results of 2008:

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IAS 39 and IFRS 7 revisions to Classification of Financial Assets

**b) New international financial reporting standards and interpretations, which have been issued but are not valid yet**

According to group management, implementation of new or revised financial reporting standards and their interpretations which had been issued by the time of making current consolidated financial statements, but were not valid yet, does not influence the value of group assets and liabilities as of 31.12.2008. Starting from the enactment date, the group will implement the following standards and interpretations:

- IAS 1 Presentation of Financial Statements (revised), will be applied on 01.01.2009 or to statement periods starting later. Revisions include the use of new terminology, changes in presentation of owner's equity transactions, in addition the standard introduces the meaning of statement of comprehensive income and new requirements of the retroactively improved financial statement presentation.
- IFRS 8 Operating Segments, will be applied on 01.01.2009 or to statement periods starting later. The standard outlines requirements for disclosure of operating segments, products and services, geographical areas where the enterprise is active and about bigger clients. IAS 14 Segments Reporting will be replaced with IFRS 8.
- IAS 23 Borrowing Costs (revised), will be applied on 01.01.2009 or to statement periods starting later.
- IFRS 1, first-time adoption of international financial reporting standards, and IAS 27, Consolidated and Unconsolidated Financial Statements, will be applied on 01.01.2009 or to statement periods starting later.
- IFRS 3 R "Business Combinations" and IAS 27 R Consolidated and Unconsolidated Financial Statements will be applied on 01.01.2009 or to statement periods starting later.
- IAS 32 Financial Instruments and IAS 1 Presentation of Financial Statements- financial instruments and liabilities, will be applied on 01.01.2009 or to statement periods starting later.
- IAS 39 Financial Instruments: recognition and measurement – considerable risk hedging instruments, will be applied on 01.01.2009 or to statement periods starting later
- IFRS 2 Share-based Payment (revisions), will be applied on 01.01.2009 or to statement periods starting later
- IFRIC 15 Real Estate Construction Contracts, be applied on 01.01.2009 or to statement periods starting later

- IFRIC 17 Distribution of Non-monetary assets to owners; will be applied on 01.01.2009 or to later statement periods
- IFRIC 18 Assets handed over by clients, will be applied on 01.01.2009 or to later statement periods

### c) IFRS supplements

In May 2008, IASB issued its first compendium of standards revisions. Its objectives were to eliminate contradictions and to specify wording. Compendium includes separate transitional settings for every standard and most of the revisions are applied on 01.07.2009 or to statement periods starting later. According to group estimations, these changes do not influence significantly financial statements.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Balance Sheet Date
- IAS 16 Property, plant and equipment
- IAS 18 Disposal Proceeds
- IAS 19 Employee benefits
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- IAS 23 Borrowing Costs
- IAS 27 Consolidated and Unconsolidated Financial Statements
- IAS 28 Investments in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 31 Interests in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 36 Impairment of assets
- IAS 38 Intangible assets
- IAS 39 Financial instruments: recognition and measurement
- IAS 40 Real Estate Investments
- IAS 41 Agriculture

### Basis of consolidation

The consolidated financial statements comprise the financial indicators of Tallinn Airport Ltd and its subsidiary AS Tallinn Airport GH, consolidated on a line-by-line basis. Subsidiaries are consolidated from the date on which significant influence is transferred to the group, and cease to be consolidated from the date on which the significant influence is transferred out of the group.

Subsidiaries are companies controlled by the parent company. Control is presumed to exist, if the parent company directly or indirectly holds over 50% of the voting shares of the subsidiary, or is otherwise able to control the operating or financial policies of the subsidiary.

The accounting principles applied by the subsidiary upon preparation of the financial statements are the same principles applied by the parent company. All intra-group transactions, receivables and

liabilities, including unrealised profits and losses arising from intercompany transactions, have been eliminated in full. Unrealised losses are not eliminated, if these losses essentially represent a drop in the value of assets.

### **Foreign currency transactions**

The Estonian kroon is the underlying currency of the parent company and the subsidiary, and the reporting currency of the consolidated financial statements of the group and the unconsolidated financial statements of the parent company. All other currencies are considered foreign currencies.

Transactions denominated in foreign currency are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. The exchange rate has been fixed at 1 EUR = 15.6466 EEK. Monetary assets and liabilities denominated in foreign currency have been translated into Estonian kroons on the basis of the currency exchange rates of the Bank of Estonia officially valid on the balance sheet date.

Foreign exchange gains and losses resulting from revaluation are recorded in the income statement of the reporting period, whereas foreign exchange gains and losses related to settlements with suppliers and customers are recorded under revenue and expenses, and other foreign exchange gains and losses under net financial items in the income statement.

### **Cash and cash equivalents**

Cash and cash equivalents include:

- (a) cash in hand;
- (b) cash at bank;
- (c) short-term deposits;
- (d) liquid shares in money market fund and interest fund with an insignificant risk of change in the market value, and with a term of redemption of less than one week.

Available cash is invested in money market and interest fund shares of banks to earn interest income. Hansa Money Market Fund pays interest for the shares; the purchase/redemption price of the shares equals to their nominal value. Hansa Interest Fund shares are measured at their fair value – i.e. their market value.

### **Financial assets**

Financial assets are initially recognised at cost, being the fair value of the consideration given. The acquisition cost includes all expenditures directly related to the purchase of the financial asset, including service charges payable to brokers and advisors, non-refundable taxes and other similar expenditures.

All regular way purchases and sales of financial assets are recognised on the trade date—i.e. the day when the group commits (e.g. concludes a contract) to purchase or sell the particular financial asset. Regular way transactions are purchases and sales transactions that require delivery of the financial asset to be purchased or sold by the seller to the buyer within the time frame generally established by regulation or convention in the marketplace.

Following initial recognition, all financial assets are recognised at fair value, except for:

- a) Receivables, which the group has not purchased for resale, including financial assets that are intended to be held-to-maturity - measured at amortised cost.;

- b) investments in shares and other equity instruments the fair value of which cannot be reliably measured (including the derivatives related to these assets) - are measured at cost.

#### Financial assets measured at fair value

Financial assets that are measured at fair value are revaluated on each balance sheet date into their fair value, whereas the possible transaction costs related to the disposal of the asset are not deducted. The fair value of listed securities is based on the closing price of the security, as well as the official exchange rate of the Bank of Estonia on the balance sheet date. Unlisted securities are measured at their fair value on the basis of the information available to the group on the value of the investment.

Any gains and losses arising from changes in fair value are recorded under "Net financial items" in the income statement, except for available-for-sale financial assets (the group has no such assets in the financial year or in the comparative period). Profit and loss from disposals of financial assets measured at fair value, as well as interests and dividends on the respective securities, are recognised under "Net financial items" in the income statement.

#### Receivables and financial assets intended to be held to maturity

Receivables, which the group has not purchased for resale, including financial assets that are intended to be held-to-maturity are measured at amortised cost using the effective interest rate method. Financial assets measured at amortised cost will be written down, if there are any objective indications that their recoverable amount is lower than their carrying amount. The write-down of financial assets related to operating activities is charged to expenses in the income statement (under "Other operating expenses") while the write-down of financial assets related to investing activities is charged to financial expenses in the income statement.

Impairment of financial assets will be presented separately for each item (considering the estimated collectibility), if the item is material. In case of collection of receivables previously written down, or other events indicating that the write-down is no longer justifiable, the previous write-down will be reversed in the income statement as a reduction of the expense item to which the write-down was initially charged.

Interest income on receivables and financial investments intended to be held to maturity are charged to "Net financial items" in the income statement.

#### Financial assets measured at acquisition cost

Financial assets measured at acquisition cost will be written down to their recoverable amount, if the recoverable amount has fallen below the carrying amount. The recoverable amount of financial assets measured at cost consists of the estimated future cash flows from the financial asset, discounted with the average rate of return from similar financial assets on the market. The amount of write-down is charged to the financial expenses of the period. The write-down of financial assets measured at cost will not be subject to later reversal.

The derecognising of financial assets will take place when the group no longer controls the rights arising from the financial assets, or when group is obliged to immediately transfer to a third party all cash flows attributable to the asset, and a majority of the risks and benefits related to the financial asset.

#### **Derivative instruments**

The group uses derivative instruments such as interest rate *swap* to hedge the risk associated with interest rate. Such derivative instruments are initially stated at fair value on the contract conclusion date. Subsequent to initial recognition, the instrument will be revaluated in accordance with the

change in its fair value. The derivative instrument will be recognised under assets, if the fair value is positive, and under liabilities, if the fair value is negative.

Gains and losses arising from changes in the fair value of the derivative instrument are transferred to the income statement of the period, except for derivative instruments that qualify for *hedge accounting*. The group had no instruments that qualified for hedge accounting in the period, or in the comparative period. The fair value of the interest rate *swap* is determined on the basis of the future cash flows method, which is based on the estimated 6-month EURIBOR.

### **Inventories**

Other inventories are measured at cost. Goods in stock are recognised based on the weighed average acquisition price method. Inventories are measured in the balance sheet according to the lower of the acquisition cost or net realisable value. Write-down of inventories is measured under "Goods, raw materials and services" in the income statement.

### **Investment property**

Investment property is a real estate object, which is held to earn rentals or for capital appreciation, and which is not used for the business activities of the group. IAS 40 allows investment property to be measured either at fair value or at cost, while the general public sector accounting rules prescribes the cost model for companies with state participation. Tallinn Airport Ltd therefore records investment properties by using the cost model – i.e. the investment properties are recorded by using the same accounting principles applied upon accounting for PPE.

### **Property, plant and equipment**

Assets with an acquisition cost of at least 30,000 kroons and a useful life of over one year are considered property, plant and equipment (PPE). Assets with a useful life of over 1 year, but an acquisition cost of less than 30,000 kroons, are recorded as low-value items (in inventories) and are fully expensed when the asset is taken into use. Low-value items that have been expensed are accounted for off-balance sheet.

#### Acquisition cost

PPE are recorded at cost, consisting of the purchase price, transportation and installation expenses as well as other expenses directly related to the acquisition and implementation of the asset item. If PPE consists of distinguishable components with different useful lives, these components are recorded as separate items, with depreciation rates determined according to their useful lives.

Borrowing costs of loans taken for financing PPE constructed for own use are not capitalised to acquisition cost.

Following initial recognition, an item of PPE is carried in the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses.

#### Depreciation

Depreciation of non-current assets is calculated on the acquisition cost on the basis of the straight-line method during the estimated useful life of the asset item. As an exception, land is not depreciated.

The depreciation methods, depreciation rates and final values of PPE are reviewed at least at the end of each financial year. If the new figures differ from previous figures, the changes will be recorded as changes in accounting estimates (prospectively).

The group has estimated the useful lives of non-current assets to be the following:

Buildings, runways, apron, taxiways	20 years
Facilities (beacons, heat networks, substations)	10 years
Other facilities (hangars, warehouses)	5 years
Other systems	10 years
Runway maintenance machinery and equipment	7 years
Other non-current assets	3–10 years

#### Assessment of the useful life of non-current assets

The useful life of PPE is determined based on the management's estimations on the period of actual use of the property. Experience has shown that the period of actual use of the property is somewhat longer than the estimated useful life.

#### Improvements

Improvement costs will be added to the acquisition cost of the asset, if these comply with the definition of PPE and the criteria for recognising assets in the balance sheet. If a component of a PPE item is replaced, the acquisition cost of the new component will be added to the acquisition cost of the item, whereas the replaced component or a proportional part of the replaced asset will be written off from the balance sheet. Expenditures related to current maintenance and repairs are expensed in the income statement as incurred.

#### Derecognition

PPE is derecognised upon transfer of the asset, or if the group can expect no financial benefits from use or disposal of the asset. Any profits and losses arising from derecognition of PPE are charged to "Other income" or "Other expenses" in the income statement of the period when the PPE were derecognised.

#### Non-current assets held for sale

PPE items which are likely to be sold within 12 months are reclassified into available-for-sale non-current assets, and recorded on a separate entry under current assets in the balance sheet. Non-current assets held for sale will no longer be depreciated, and will be recorded at the lower of the net book value or fair value (less sales expenses).

#### **Intangible assets**

Intangible assets are initially recorded at acquisition cost, consisting of purchase price and expenses directly related to the acquisition. Intangible assets are recorded in the balance sheet at their cost, less accumulated depreciation and any accumulated impairment losses. The purchased software with a definite useful life is recorded under intangible assets. In the accounting period or the comparative period, the group had no intangible assets with an undefined useful life, which are not depreciated but on which impairment tests are conducted on each balance sheet date.

Amortisation of intangible assets is calculated on the basis of the straight-line method during the estimated useful life of the asset item.

The group has estimated the useful lives of intangible assets to be 5 years.

#### **Impairment of assets**

The group assesses, on each balance sheet date, whether there is any indication of that the coverable amount of assets has dropped below the carrying amount. If any such indication exists, or once a year when the group is required to conduct annual evaluation, the group will estimate the recoverable

amount of its assets. If the estimated recoverable amount of PPE is lower than its carrying amount, the asset (or the assets of the cash-generating unit) will be written down to its recoverable amount, which is the higher of the present value of the estimated future cash flows of the asset (i.e. value-in-use) and the fair value of the asset, less sales expenses. Independent experts are used for determining the fair value of the asset. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The write-down is charged to the expenses of the period in the income statement under the entry used for recording depreciation of the written-down asset or assets of the cash-generating unit.

On each balance sheet, the group assesses whether there is any indication that the previous impairment is no longer justified. If any such indications exist, the recoverable amount of the asset will be ascertained, whereas the write-down will be cancelled, if necessary, and the carrying amount of the asset increased, but not in excess of the carrying amount the asset item would have had if no write-down was conducted. Reversal of the write-down is recorded in the income statement under the same entry previously used for the write-down.

### **Government grants**

#### Government grants allocated for assets

Government grants allocated for assets are recorded based on the gross method. Assets acquired with the help of government grants are recorded in the balance sheet at cost, i.e. government grants received for the purpose of acquiring assets are recorded in the balance sheet under non-current liabilities as deferred income from government grants. The acquired assets are depreciated and the deferred income is recognised as income over the useful life of the asset.

#### Government grants allocated for operating expenses

Income from government grants is recorded in the income statement in proportion with the related expenses. The gross method is applied for recording income, i.e. the grant received and the expenses to be compensated for are recorded under different captions of the income statement. Income related to government grants is recorded under "Other income" in the income statement.

Government grants, which are allocated for covering expenses incurred in previous periods or which do not incur future obligations, are charged to income during the period the grant was allocated. Government grants are not recorded as income before the company has sufficient reason to believe that the company meets the conditions established for the government grant, and the grant will be awarded.

### **Accounting for lease**

Lease transactions, where all material risks and benefits from ownership of an asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating lease.

Assets acquired on finance lease terms are initially recognised in the lessee's balance sheet as assets and liabilities at the lower of the fair value or net present value of lease payments. The liability is reduced by repayment of the principal. Finance lease-related interest expenses are recorded under financial expenses in the income statement.

Operating lease payments made by the group are recorded during the rental period as expenses; operating lease payments received by the group are recorded under income based on the straight-line method.

The group leases commercial premises to companies. The lease has been associated with the consumer price index. Concession contracts, which grant the concessionaire the right to operate on the premises of Tallinn Airport are considered conditional lease contracts.

There are two types of concession fees:

- (a) fixed annual fees which are adjusted by the rate of increase in passenger numbers;
- (b) a fixed proportion of revenue earned by the concessionaire upon operating on the premises of Tallinn Airport.

### **Corporate income tax**

Pursuant to the Income Tax Act, Estonian companies are not subjected to pay income tax on profit. Rather, they are subjected to income tax on the paid dividends and certain disbursements as well as costs laid down in the Income Tax Act. The established tax rate was 22/78 of the net dividend paid until 31 December 2007, and 21/79 of the net dividend paid from 1 January 2008 onwards. Since income tax is paid on the dividends rather than profit, all temporary differences between the tax bases and carrying values of assets and liabilities cease to exist.

The company's potential income tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The income tax due on dividend distribution is recorded as tax cost in the income statement when dividend is announced.

### **Financial liabilities**

All financial liabilities (accounts payable, loans taken, accrued expenses and other short-term and long-term payables) are initially accounted for at their acquisition cost, consisting of the fair value of the amounts received thereof. Following initial recognition, financial liabilities are recorded based on the amortised cost principle by using the effective interest rate method. Interest expenses related to the financial liability are recorded under "Net financial items" in the income statement.

The financial liability will be derecognised when the liability is paid, cancelled or expired.

### **Current and non-current liabilities**

Liabilities are divided into current and non-current liabilities in the balance sheet. Liabilities due for payment within the next financial year are considered current liabilities. Other liabilities are recognised as non-current liabilities.

### **Provisions and contingent liabilities**

Provisions are recognised in the balance sheet when the company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; but the final amount of the obligation or the deadline for payment is not clearly fixed. The management's judgements and experience as well as evaluations of independent experts (if necessary) are taken as basis for evaluating the provisions.

Promises, guarantees and other commitments that in certain circumstances may become liabilities, but only have a lower than 50% probability of becoming liabilities (according to the management of the company), are disclosed as contingent liabilities in the notes to the financial statements.

### **Mandatory reserve**

The mandatory reserve is set up, in accordance with the Commercial Code, of annual net profit allocations and other transfers to mandatory reserve in accordance with the Commercial Code or the Articles of Association. With the resolution of the General Shareholders' Meeting, the mandatory reserve can be used for covering the loss, if loss cannot be covered from the available shareholder's

equity. Mandatory reserve can also be used for increasing the share capital of the company. The mandatory reserve cannot be paid out as dividends.

**Revenue recognition**

The main activity of the group is the provision of air transport and passenger services. The company also earns revenue from rent, and the provision and mediation of utility services to tenants.

Revenue from sales of services is recorded during the month the service was rendered on the basis of the matching principle. Revenue from fines for delay is recorded upon their receipt in the received amount. Interest income and other accrued income are recorded as income on the moment the right of claim arises.

**Cash flow statement**

Cash flows are divided into cash flow from operating activities, investing activities and financing activities. For the purposes of the cash flow statement, cash flow from operating activities, investing activities and financing activities is measured by using the direct method.

**Off-balance-sheet receivables and liabilities**

Contingent and conditional receivables and liabilities are accounted for off-balance sheet. Uncollectible debts are the most significant off-balance sheet receivables.

**Events after the balance sheet date**

Material transactions or events that have an effect on the company's operations and became evident between the balance sheet date and the date of preparing the financial statements, are recorded in the notes to the financial statements. Subsequent events which have an effect on the financial results of the year are recorded in the balance sheet and income statement of the period.

**Accounting estimations and assumptions**

Several financial indicators included in the financial statements are based on the management's best judgements—e.g. depreciation rates for non-current asset items, classification of lease into operating and finance lease, write-down of accounts receivable. These judgements may not reflect the actual results. Changes in the management's estimations are recorded in the income statement of the period when the changes occurred.

**Notes to the financial statements****Note 1 Cash and cash equivalents**

in thousands of kroons	31.12.2008	31.12.2007
Cash in hand	224	345
Cash at bank	1 590	27 876
Overnight deposits	213 081	24 890
<b>Total cash and bank accounts</b>	<b>214 895</b>	<b>53 111</b>

## Cash and cash equivalents according to currencies

in thousands of kroons	31.12.2008	31.12.2007
Estonian kroon	58 225	27 022
EUR	156 392	26 001
USD	278	88
<b>Total cash and bank accounts</b>	<b>214 895</b>	<b>53 111</b>

**Categories of financial assets and financial liabilities under IAS 39**

		31.12.2008	31.12.2007
Derivative instrument (Note 2)	At fair value through profit and loss	-9 478	5 027
Accounts receivable and other receivables (Note 3)	Loans and receivables	32 270	107 473
Borrowings (Note 10)	Financial liabilities at amortised cost	638 286	294 979
Payables (Note 12)	Financial liabilities at amortised cost	173 591	158 289

**Note 2 Derivative instruments**

The group has concluded two transactions with derivative instruments.

- Interest rate swap for the Nordea Bank loan with a floating interest rate:
  - date of conclusion: 17.11.2005;
  - commencement date: 21.11.2005;
  - maturity date: 20.11.2012;
  - base amount: 140,042 thousand kroons;
  - fixed interest rate: 3.04%.
- Interest rate swap for the Nordic Investment Bank loan with a floating interest rate:
  - date of conclusion: 16.03.2007;
  - commencement date: 17.09.2007;

maturity date:	15.09.2017;
base amount:	78,233 thousand kroons;
fixed interest rate:	4,015%.

in thousands of kroons	NORDEA	NIB	TOTAL
<b>Market value as of 31.12.2006</b>	<b>2 599</b>	<b>0</b>	<b>2 599</b>
<b>Changes in 2007</b>			
Change in market value	901	2 598	3 499
Interest paid	- 1 071	0	- 1 071
<b>Market value as of 31.12.2007</b>	<b>2 429</b>	<b>2 598</b>	<b>5 027</b>
<b>Changes in 2008</b>			
Change in market value	-1 806	-10 340	-12 146
Interest paid	-751	-1 608	-2 359
<b>Market value as of 31.12.2008</b>	<b>-128</b>	<b>-9 350</b>	<b>-9 478</b>

### Note 3 Receivables

in thousands of kroons	31.12.2008	31.12.2007
Accounts receivable	32 905	28 972
Allowance for doubtful receivables	-635	-263
<b>Total accounts receivable</b>	<b>32 270</b>	<b>28 709</b>
Government grants allocated for property, plant and equipment yet to be received	0	78 747
Refundable VAT	12 051	48 261
Other receivables	102	17
<b>Total receivables</b>	<b>44 423</b>	<b>155 734</b>

#### Changes in doubtful receivables

in thousands of kroons	31.12.2008	31.12.2007
Allowance for doubtful receivables at the beginning of the period	-263	-1 172
Receivables deemed doubtful during the accounting period (Note 20)	-2 573	-333
Uncollectible debts	2 144	179
Collection of doubtful receivables during the accounting period (Note 20)	57	1 063
<b>Allowance for doubtful receivables at the end of the period</b>	<b>-635</b>	<b>-263</b>

<b>Receivables by payment due dates</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Receivables not yet due	22 624	21 548
Receivables due for up to 30 days	7 406	4 617
Receivables due for up to 60 days	848	2 353
Receivables due for over 60 days	2 027	454
<b>Total accounts receivable</b>	<b>32 905</b>	<b>28 972</b>

#### **Note 4 Prepayments**

<b>in thousands of kroons</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Insurance prepayments	997	404
Other prepayments	1 263	955
<b>Total prepaid expenses</b>	<b>2 260</b>	<b>1 359</b>

#### **Note 5 Inventories**

<b>In thousands of kroons</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Materials	545	832
Non-current assets held for sale	0	730
<b>Total inventories</b>	<b>545</b>	<b>1 562</b>

#### **Note 6 Subsidiary**

Tallinn Airport Ltd established, on the basis of the Ground Handling Department, the public limited company AS Tallinn Airport GH in 2005. The corresponding entry was made in the Commercial Register on 29 December 2005. AS Tallinn Airport GH is fully owned by Tallinn Airport Ltd. The main activity of AS Tallinn Airport GH is the on-ground servicing of legal persons and private individuals who use the airport.

#### **Note 7 Investment property**

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
Acquisition cost at the beginning of the period	20 351	19 122
Accumulated depreciation at the beginning of the period	-19 885	-18 630
<b>Net book value of investment property at the beginning of the period</b>	<b>466</b>	<b>492</b>
<b>Changes in investment property</b>		
Reclassification from non-current assets into investment property - acquisition cost	0	1 230
Reclassification from non-current assets into investment property - accumulated depreciation	0	-1 230
Acquisition cost of written-off assets	0	-1

Accumulated depreciation of written-off assets	0	1
Calculated depreciation (Note 8d, 20)	-26	-26
<b>Total change in the period (Note 8d)</b>	<b>-26</b>	<b>-26</b>
Acquisition cost at the end of the period	20 351	20 351
Accumulated depreciation at the end of the period	-19 911	-19 885
<b>Net book value of investment property at the end of the period</b>	<b>440</b>	<b>466</b>

The group generated a total of 1,555 thousand kroons of rental revenue from investment property in the financial year (in 2007: Tallinn Airport Ltd generated 2,430 thousand kroons).

Expenses directly related to the investment property management amounted to 1,513 thousand kroons (in 2007, Tallinn Airport Ltd: 2,415 thousand kroons).

According to the real estate division of Tallinn Airport Ltd, the fair value of buildings recognised as investment property amounts to 9,900,000 kroons (in 2007 it was 10 150 000 kroons), including:

- temporary passenger terminal - specific-purpose building, a part of which has been leased out. The building has no market value as it has no market. The land under the building, together with the service land has a total area of 8,000 m<sup>2</sup>, and a fair value of 9.6 million kroons.
- the company apartment in Kärđla City has a fair value of 300,000 kroons.
- the former military aircraft hangars at Pärnu Airport have no market value.

### Note 8 Property, plant and equipment

In thousands of kroons	Land	Buildings	Machinery and equipment	Other	Total
<b>Non-current assets as of 31.12.2006</b>					
Acquisition cost	50 661	689 103	293 355	26 309	1 059 427
Accumulated depreciation	0	-265 683	-162 431	-17 655	-445 769
<b>Net book value</b>	<b>50 661</b>	<b>423 420</b>	<b>130 924</b>	<b>8 654</b>	<b>613 659</b>
Unused assets and prepayments	7	235 169	3 069	109	238 354
<b>Total property, plant and equipment as of 31.12.2006</b>	<b>50 668</b>	<b>658 589</b>	<b>133 992</b>	<b>8 763</b>	<b>852 012</b>

#### Transactions with non-current assets in 2007

Acquisition of non-current assets (note 8 a)	3 598	61 174	74 015	8 131	146 918
Depreciation charge (note 8c, 20)	0	-46 362	-34 265	-4 830	-85 457
Acquisition cost of disposed non-current assets	0	-67	-14	0	-81
Depreciation of disposed non-current assets (note 20)	0	-2 550	-123	-234	-2 907
Reclassified into non-current assets held for sale – acquisition cost	0	0	-730	0	-730
Unused assets and prepayments	-7	442 287	8 105	4 837	455 222
<b>Total transactions in 2007</b>	<b>3 591</b>	<b>454 483</b>	<b>46 988</b>	<b>7 904</b>	<b>512 965</b>

	Land	Buildings	Machinery and equipment	Other	Total
<b>Non-current assets as of 31.12.2007</b>					
Acquisition cost	54 258	742 488	330 062	29 869	1 156 677
Accumulated depreciation	0	-306 872	-160 255	-18 148	-485 275
<b>Net book value</b>	<b>54 258</b>	<b>435 615</b>	<b>169 807</b>	<b>11 721</b>	<b>671 402</b>
Unused assets and prepayments	0	677 456	11 173	4 946	693 575
<b>Total property, plant and equipment as of 31.12.2007</b>	<b>54 258</b>	<b>1 113 072</b>	<b>180 980</b>	<b>16 667</b>	<b>1 364 978</b>

**Transactions with non-current assets in 2008**

Acquisition of non-current assets (Note 8a)	59	970 681	477 745	39 973	1 488 459
Depreciation charge (Note 8c,20)	0	-72 402	-53 553	-11 861	-137 816
Acquisition cost of disposed non-current assets	0	0	-532	0	-532
Acquisition cost of written-off non-current assets (Note 20)	0	0	-791	-50	-841
Reclassified into non-current assets held for sale – acquisition cost (Note 5)	0	0	730	0	730
Unused assets and prepayments	0	-603 100	-2 018	-4 512	-609 629
<b>Total transactions in 2008 (Note 8c)</b>	<b>59</b>	<b>295 180</b>	<b>421 582</b>	<b>23 550</b>	<b>740 371</b>

	Land	Buildings	Machinery and equipment	Other	Total
<b>Non-current assets as of 31.12.2008</b>					
Acquisition cost	54 317	1 706 652	804 489	58 952	2 624 435
Accumulated depreciation	0	-327 757	-211 083	-19 169	-603 034
<b>Net book value</b>	<b>54 317</b>	<b>1 333 895</b>	<b>593 405</b>	<b>39 783</b>	<b>2 021 401</b>
Unused assets and prepayments	0	74 357	9 156	434	83 946
<b>Total property, plant and equipment as of 31.12.2008</b>	<b>54 317</b>	<b>1 408 252</b>	<b>602 561</b>	<b>40 217</b>	<b>2 105 347</b>

**Note 8a Total acquisition of non-current assets, by airports and subsidiaries**

in thousands of kroons	2008	2007
Tallinn Airport	1 414 906	76 773
Kärdla Airport	318	12 846
Kuressaare Airport	15 354	29 659
Tartu Airport	48 535	16 121
Pärnu Airport	3 323	10 749
Tallinn Airport GH	6 022	770
<b>Total purchases and additions</b>	<b>1 488 459</b>	<b>146 918</b>

The purchases of PPE by regional airports have partially been financed from ERDF funds. Information on government grants allocated for non-current assets has been disclosed in Note 17.

### **Note 8b Acquisition cost of zero-value non-current assets still in use**

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
Tallinn Airport	56 005	67 531
Kärdla Airport	6 248	5 690
Kuressaare Airport	2 015	1 811
Tartu Airport	7 335	7 257
Pärnu Airport	19 140	13 289
Tallinn Airport GH	340	12
<b>Total</b>	<b>91 084</b>	<b>95 590</b>

### **Note 8c Classification of cash flow related to non-current assets**

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
Transactions with non-current assets in the period (Note 7, 8, 9)	739 004	519 765
Depreciation charge (Note 7, 8, 9)	142 019	86 393
Net book value of written-off non-current assets (Note 7, 8, 9)	841	3 348
Net book value of disposed non-current assets (Note 8)	532	81
Proceeds from disposal of non-current assets (Note 19)	-639	-345
Net book value of non-current assets reclassified into non-current assets held for sale (Note 8c)	-730	730
Proceeds from land exchange (Note 8a, 19)	0	-3 598
Reclassification	-251	290
Change in payables to suppliers for non-current assets (Note 12)	-9 221	-125 816
<b>Total cash flow related to non-current assets</b>	<b>871 556</b>	<b>480 847</b>

### **Note 9 Intangible assets**

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
Acquisition cost at the beginning of the period	8 137	1 429
Accumulated amortisation at the beginning of the period	-1 170	-276
<b>Net book value</b>	<b>6 967</b>	<b>1 153</b>
Unused assets and prepayments	5 146	4 134
<b>Total intangible assets at the beginning of the period</b>	<b>12 113</b>	<b>5 287</b>

<b>Transactions with intangible assets in the period</b>	<b>2008</b>	<b>2007</b>
Acquisition of intangible assets (Note 8ca)	7 983	6 725
Amortisation charge (Note 8cd, 20)	-4 177	-911
Acquisition cost of written-off intangible assets	0	-17

Amortisation of written-off intangible assets	0	17
Reclassification	0	-156
Unused assets and prepayments	-5 146	1 168
<b>Total transactions in the period</b>	<b>-1 340</b>	<b>6 826</b>

Acquisition cost at the end of the period	16 121	8 137
Accumulated amortisation at the end of the period	-5 348	-1 170
<b>Net book value</b>	<b>10 773</b>	<b>6 967</b>
Unused assets and prepayments	0	5 146
<b>Net book value of intangible assets at the end of the period</b>	<b>10 773</b>	<b>12 113</b>

### Note 10 Long-term borrowings

All loans taken were denominated in euros.

#### Loan conditions

<b>Creditor</b>	<b>Contract date</b>	<b>Repayment due date</b>	<b>Collateral (Note 11)</b>	<b>Loan amount EEK</b>
EIB	23.10.1997	15.06.2012	Guarantee provided by the Republic of Estonia	156 466 000
NORDEA	15.11.2005	20.11.2012	See Note 11	140 042 531
Nordic Investment Bank	31.01.2007	05.12.2017	See Note 11	500 691 200

#### Change in borrowings

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
<b>Loan balance at the beginning of the period</b>	<b>293 958</b>	<b>205 265</b>
Loans repaid during the period	-36 480	-36 480
Loans received during the period	375 518	125 173
Accrued interest	5 300	1 021
<b>Loan balance at the end of the period</b>	<b>638 296</b>	<b>294 979</b>
Short-term portion of the loan balance at the end of the period	97 413	37 501
Long-term portion of the loan balance at the end of the period	540 883	257 477
Calculated interest expenses during the period (Note 21)	17 835	8 652

**Change in borrowings (by loans)**

in thousands of kroons	EIB		NORDEA		NIB	
	2008	2007	2008	2007	2007	2007
<b>Loan balance at the beginning of the period</b>	70 410	86 057	98 375	119 209	125 173	0
Loan repayments during the period	-15 646	-15 647	-20 834	-20 834	0	0
Loans received during the period	0	0	0	0	375 518	125 173
<b>Loan balance at the end of the period</b>	<b>54 764</b>	<b>70 410</b>	<b>77 541</b>	<b>98 375</b>	<b>500 691</b>	<b>125 173</b>
Loan interest commitment	113	145	408	561	4 779	315
Short-term portion of the loan balance at the end of the period	15 647	15 647	20 834	20 834	55 632	0
Long-term portion of the loan balance at the end of the period	39 117	54 763	56 707	77 541	445 059	125 173
Calculated interest expenses during the period	3 241	3 407	4 618	4 930	9 976	315
Interest rate	Floating, average, 4,86%	Floating, average., 4,2%	6k Euribor +0,3%	6k Euribor +0,3%	6k Euribor +0,12%	6k Euribor +0,12%

**Note 11 Loan collateral and pledged assets**

As regards the loan taken from the European Investment bank (EIB) for reconstructing the passenger terminal, the Republic of Estonia guaranteed complete and appropriate fulfilment of any contractual financial liabilities of Tallinn Airport Ltd to the banks, including payment of any interest and other amounts payable to the bank on the basis of the provisions of the loan contract.

As of 31.12.2007 as well as of 31.12.2008, the guarantee provided by the Republic of Estonia only applies to the EIB loan.

No assets have been pledged as collateral to the Nordea Bank and Nordic Investment Bank loan. The loan agreement stipulates that Tallinn Airport Ltd is not allowed, without the bank's previous written consent:

1. to transfer, lease out or otherwise transfer assets into the use of a third party under the contract, unless this can be deemed ordinary business activity;
2. to pledge or encumber assets with any other restricted real right.

**Note 12 Payables**

in thousands of kroons	31.12.2008	31.12.2007
<b>Accounts payable</b>		
Payables for non-current assets	147 779	138 558
Other payables for goods and services	11 312	8 299
Prepayments for products and services	58	180
<b>Total accounts payable</b>	<b>159 149</b>	<b>147 037</b>

Taxes payable (Note 13)	10 305	10 419
Accrued expenses (Note 14)	14 500	11 432
<b>Total payables and prepayments</b>	<b>183 955</b>	<b>168 888</b>

Tallinn Airport current asset is less than 28 millions of kroons from short term liabilities. The rest will be covered from ERDFIII resources in the amount of 11 million kroons (Tallinn Airport Ltd financed the non-current assets for regional airports in 2008 from its own resources) and from business cash flow of 2009.

### **Note 13 Taxes payable**

In thousands of kroons	31.12.2008	31.12.2007
Corporate income tax	69	75
Income tax on wages and fringe benefits	3 502	2 855
Social tax on wages and fringe benefits	6 287	7 145
Unemployment insurance	139	144
Pension insurance	235	200
<b>Excise</b>	<b>73</b>	<b>0</b>
<b>Total taxes payable</b>	<b>10 305</b>	<b>10 419</b>

### **Note 14 Accrued expenses**

in thousands of kroons	31.12.2008	31.12.2007
Employee-related liabilities	14 484	11 301
<i>incl. holiday pay</i>	8 527	5 759
Other accrued expenses	16	131
<b>Total accrued expenses</b>	<b>14 500</b>	<b>11 432</b>

### **Note 15 Operating lease**

#### **Rental revenue**

The company has earned rentals from the lease of rooms, hangars, land, ground handling equipment and passenger registration system (CUTE) workplaces. A majority of the lease agreements have been concluded without a term and may be terminated with a short advance notice.

in thousands of kroons	2008	2007
Lease of investment property	1 210	2 430
Lease of terminal space	12 430	11 563
Lease of cargo terminal space	7 752	6 893
Other lease	2 186	2 803
<b>Total lease (Note 19)</b>	<b>23 577</b>	<b>23 690</b>

### Concession revenue

In case of service concession contracts, Tallinn Airport Ltd grants, for the duration of the concession, the concessionaire the right to render services on the airport premises.

Most of the revenue from concessions is made up of trade revenue. Passenger terminal concessionaires also render car rental and catering services. Banks provide the currency exchange service as well.

The services rendered on the airport premises on the basis of concession contract include aircraft refuelling, cargo handling, on-board catering and provision of security services to the companies operating on the airport premises.

in thousands of kroons	2008	2007
Concessions from commercial activities	26 979	22 466
Other concessions from the passenger terminal	2 935	2 612
Concessions from sales of fuel	4 700	4 174
Concessions from cargo handling	1 814	1 605
Concessions from security services	184	183
Concessions from taxi waiting spaces	563	540
<b>Total concessions (Note 19)</b>	<b>37 176</b>	<b>31 579</b>

**Rental expenses**

in thousands of kroons	2008	2007
Rental expenses	558	759
<b>Future lease payments from non-cancellable rental contracts as of the end of the year</b>		
Payments in the next financial year	434	351
Payable within 1-5 years	550	114
<b>Total future lease payments</b>	<b>984</b>	<b>465</b>

**Note 16 Provisions**

The group has established in the balance sheet a 3,154-thousand-kroon provision since 1999, set up on the basis of the former obligation to report 75% of the rental revenue to state revenues. No such liability is currently stipulated or regulated by law, Ministry of Finances has no such claim in this amount against Tallinn Airport. In 2008 this provision has been cancelled and transferred into income and is recognised in the line of other income.

**Note 17 Government grants**

With the Amendment No. 57 from 18 March 2005 to the Regulation No. 81 of the Government of the Republic from 22 March 2004 ("Establishment of the structural aid implementing agency and implementation units, and approval of the list of investment measures of the state and the local government"), Tallinn Airport Ltd was included in the list of implementation units.

in thousands of kroons	2008	2007
<b>Balance of liabilities at the beginning of the period</b>	<b>547 001</b>	<b>244 642</b>
Adjustment in 2007	0	-2 280
<b>Government grants received</b>		
Cohesion Fund (ISPA) <sup>1</sup>	401 400	297 728
European Regional Development Fund (ERDF) <sup>2</sup>	37 223	17 830
National government grant <sup>3</sup>	500	500
<b>Total government grants received</b>	<b>439 123</b>	<b>316 058</b>
<b>Government grants depreciated as income</b>		
Cohesion Fund (ISPA)	-23 372	0
European Regional Development Fund (ERDF)	-4 907	-2 825
National government grant allocated for non-current assets	-7 894	-8 245
Government grants written off net book value (note 19)	0	-349
<b>Total government grants depreciated as income (Note 19)</b>	<b>-36 173</b>	<b>-11 419</b>
<b>Balance of liabilities at the end of the period</b>	<b>949 950</b>	<b>547 001</b>

**Note 17 a Governments grants**

## Classification of government grants cash flow

in thousands of kroons	2008	2007
<b>Change in government grants allocated for property, plant and equipment (note 3)</b>	78 746	-74 188
Adjustment in 2007 (note 17)	0	-2 280
<b>Government grants received (note 17) <sup>4</sup></b>	439 123	316 058
<b>Total government grants cash flow</b>	<b>517 871</b>	<b>251 590</b>

**<sup>1</sup> Grants from the Cohesion Fund**

On 6 January 2003, Financial Memorandum No. 2002/EE/16/P/PA/009 was concluded between the European Commission and the Republic of Estonia on the ISPA measures for funding the "Technical aid for rehabilitation of the Tallinn Airport airside area and upgrading of the passenger terminal" project.

The total grant received from the Cohesion Fund amounts to 842 million kroons (54 million euros).

In 2008 both objects were completed, Tallinn Airport airside area was financed by CF in 69 % and renovation of passenger terminal in 58 %.

	Airside	Airside prepayment and uncompleted works	Passenger terminal	Passenger terminali prepayment and uncompleted works	TOTAL
<b>Acquisition cost</b>					
2008	366 571	-56 625	503 223	-48 487	764 682
2007	303 533	-26 500	161 214	-12 720	425 527
2006	0	78 291	0	87 916	166 206
2005	0	4 834	0	3 450	8 284
<b>TOTAL</b>	<b>670 104</b>	<b>0</b>	<b>664 437</b>	<b>30 158</b>	<b>1 364 699</b>
<b>Cohesion Fund aid</b>					
2008	232 566	-47 559	278 204	-61 811	401 400
2007	224 385	-23 823	106 580	-9 414	297 728
2006	0	66 548	0	67 775	134 323
2005	0	4 834	0	3 450	8 284
<b>TOTAL</b>	<b>456 951</b>	<b>0</b>	<b>384 784</b>	<b>0</b>	<b>841 735</b>

**<sup>2</sup> Grants from the European Regional Development Fund**

Pursuant to the Regulation No. 536-k of the Government of the Republic from 12 July 2004, up to 50% of the eligible costs on the implementation of the aviation projects in the regional airports of Tallinn Airport Ltd will be financed from ERDF. The remainder will be covered by the Tallinn Airport.

in thousands of kroons	Acquisition cost of non-current assets		Self financing		ERDF aid	
	2008	2007	2008	2007	2008	2007
<b>Kärdla</b>	0	6 943	0	3 472	0	3 472
<b>Kuressaare</b>	3 996	22 740	1 003	10 116	2 992	12 624
<b>Tartu</b>	48 476	9 693	17 238	4 969	33 980	4 724
<b>Unused assets and prepayments</b>	5 748	-7 456	11 040	-4 467	251	-2 990
<b>Total</b>	<b>58 220</b>	<b>31 920</b>	<b>29 281</b>	<b>14 090</b>	<b>37 223</b>	<b>17 830</b>

In the financial year, Tartu airport runway extension, construction of new perimeter fence, coating the existing runway and renovation of air navigation tower were financed.

Air navigation tower equipment was purchased for Kuressaare Airport.

**<sup>3</sup> National government grant**

In 2007 and 2008, Tartu City allocated 500 thousand kroons for the upgrading of Tartu Airport.

<sup>4</sup> **Cohesion Fund** finances directly the suppliers from received government grants. Government grants allocated for 2008 and resources from funds sent to suppliers are stated in cash flow statement accordingly as investment cash flow in the line item "non-current assets" in the amount of 480 148 thousand kroons (350 585 thousand kroons in 2007) and as financing cash flow in the line item "Government grants cash flows" in the amount of 480 148 thousand kroons (350 585 thousand kroons in 2007).

**Note 18 Owner's equity**

As of 31.12.2008, the public limited company had 3,599 thousand shares (31.12.2007: 3,599 thousand shares). In 2008 there were no changes in share capital. In 2007, the share capital was increased by 2,150 thousand kroons by way of a bonus issue. The nominal value of the share is 100 kroons.

All shares of Tallinn Airport Ltd are held by the Republic of Estonia. The administrator of these shares and the exerciser of the shareholder's right is the Ministry of Economic Affairs and Communications, which is represented, on the General Shareholders' Meeting, by the Minister of Economic Affairs and Communications.

**The company's potential income tax liability**

As of 31.12.2008, the group's retained earnings amounted to 201,159 thousand kroons. The maximum possible income tax liability related to the payment of the retained earnings as dividends is 42,243 thousand kroons. The group can thus pay 158,916 thousand kroons in net dividends.

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses would not exceed the distributable profit as of 31.12.2008.

## **Note 19 Revenue**

Since 01.04.2008 international flights landing charge was decreased from 170 kroons to 155 kroons. Since 01.11.2008 passenger charge was decreased from 155 kroons to 124 kroons.

### **AVIATION REVENUE**

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
<b>Aviation charges</b>		
Landing charges	132 073	120 104
Passenger charges	136 015	133 826
Parking charges	4 815	3 772
Takeoff charges	34	50
Navigation charges	373	381
<b>Total aviation charges</b>	<b>273 310</b>	<b>258 133</b>

### **NON-AVIATION REVENUE**

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
<b>Ground service of aircrafts and passengers</b>	<b>37 102</b>	<b>30 406</b>
<b>Revenue from other services</b>		
Rental income (Note 15)	23 577	23 690
Concessions (Note 15)	37 176	31 579
Advertising services	6 217	5 806
Vehicle parking charges	20 886	17 333
Other rendered services	12 253	10 986
Other mediated services	16 755	9 886
<b>Total revenue from other services</b>	<b>116 864</b>	<b>99 280</b>
<b>TOTAL REVENUE</b>	<b>427 276</b>	<b>387 819</b>
<b>OTHER INCOME</b>		
Government grants (Note 17)	36 173	11 419
National government grants allocated for operating expenses	13 000	12 000
Proceeds from disposals of PPE <sup>1</sup> (Note 8c)	107	264
Proceeds from land exchange (Note 8, 8c)	0	3 598
Other income	3 476	620
<b>Total other income</b>	<b>52 756</b>	<b>27 901</b>
<b>TOTAL REVENUE</b>	<b>480 032</b>	<b>415 720</b>

<sup>1</sup> The net book value of disposed non-current assets amounted to 532 thousand kroons in 2008 (81 thousand kroons in 2007).

**Note 20 Expenses****EXPENSES**

in thousands of kroons	2008	2007
<b>Goods, raw materials and services</b>		
Mediated services	13 291	8 765
Outsourced security surveillance services	38 340	27 330
Other security, rescue and safety services	4 354	3 582
Insurance	4 677	4 762
Infrastructure expenses	44 151	24 026
Airfield management expenses	12 765	9 943
Airfield maintenance equipment expenses	17 021	15 072
IT and communication expenses	7 400	8 725
<b>Total goods, raw materials and services</b>	<b>141 999</b>	<b>102 204</b>
<b>Other operating expenses</b>		
Administrative and sales expenses	9 991	8 566
Other operating expenses	10 566	3 340
<i>incl. collection of receivables deemed doubtful during the accounting period (Note 2)</i>	<i>2 516</i>	<i>333</i>
<b>Total other operating expenses</b>	<b>20 557</b>	<b>11 906</b>
<b>Personnel expenses</b>		
Wages and other remuneration	96 537	78 584
Social tax	32 582	26 778
<b>Total personnel expenses</b>	<b>129 119</b>	<b>105 362</b>
<b>Depreciation (Note 7, 8, 9)</b>	<b>142 799</b>	<b>89 301</b>
<b>Other expenses</b>	<b>1 529</b>	<b>1 080</b>
<b>TOTAL EXPENSES</b>	<b>436 003</b>	<b>309 853</b>

**Note 21 Net financial items**

in thousands of kroons	2008	2007
<b>Financial income</b>		
Deposit interest	2 579	1 924
Change in the fair value of derivatives (Note 2)	0	3 499
Profit from currency exchange rate revaluation	178	6
<b>Total financial income</b>	<b>2 757</b>	<b>5 429</b>

<b>Financial expenses</b>		
Loan interest expenses (Note 10)	-17 835	-8 652
Change in the fair value of derivatives (Note 2)	-12 146	0
Foreign exchange losses	-129	-101
Other financial expenses	-2	-28
<b>Total financial expenses</b>	<b>-30 112</b>	<b>-8 781</b>
<b>Total net financial items</b>	<b>-27 355</b>	<b>-3 352</b>

## **Note 22 Related party transactions**

Parties who control the other party or have significant influence over the business decisions of the other party are deemed related parties by the group. Related parties include the Management Board and Supervisory Board of the parent company, except in cases where these individuals do not have significant influence over the business decisions of the company. In addition, related parties include close relatives of and companies controlled by the above individuals.

### **Management Board and Supervisory Board**

Total remuneration paid to the Supervisory Board amounted to 451 thousand kroons in 2008 (477 thousand kroons in 2007).

The members of the Management Board received 3,504 thousand kroons in remuneration in 2008 (2007: 3,089 thousand kroons).

Tallinn Airport Ltd has insured its Management Board members, and granted company cars into their use. The employment contracts do not stipulate any severance compensation.

### **Purchases and sales from/to the following related party/parties:**

The balance of receivables and liabilities of units and companies under the controlling influence of the public sector also include balances with the Tax and Customs Board.

### **Sales**

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
Units and companies under the controlling influence of the public sector	4 514	4 256
Structural units under the controlling influence of the public sector	103 932	116 666

**Purchases**

<b>in thousands of kroons</b>	<b>2008</b>	<b>2007</b>
Units and companies under the controlling influence of the public sector	20 406	11 324
Structural units under the controlling influence of the public sector	601	2 768

The balance of receivables and liabilities from/to related parties as of December 31.12.2006 (recorded under "Accounts receivable" and "Accounts payable"):

**Receivables**

<b>in thousands of kroons</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Units and companies under the controlling influence of the public sector	10 574	48 635
Structural units under the controlling influence of the public sector	4 514	3 846

**Payables**

<b>in thousands of kroons</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Units and companies under the controlling influence of the public sector	7 991	5 790
Structural units under the controlling influence of the public sector	126	360

**Note 23 Management of financial risks**

Liquidity risk, credit risk, interest risk and currency risk are related to the standard business operations of the company. The public limited company has identified itself as a company which avoids financial risks. The most significant objectives for managing the financial risks of the public limited company (in the order of priority) are:

- liquidity;
- capital preservation;
- revenue generation.

Liquidity risk

In case of current fixed-term investments, the company will ensure liquidity for timely fulfilment of single bigger-than-average liabilities. Investments are only made in liquid securities and partners with high credit rating.

As of the end of 2008, the group had three valid loan agreements. Loan agreements totalled 638 million kroons at the end of the year (in 2007: 294 million kroons). As of the end of the financial year, the group had available monetary funds in the total amount of 215 million kroons (as of the end of 2007: 53 million kroons).

Most of the group's payables have a repayment due date within up to 3 months after the balance sheet date, except for borrowings, with the respective data disclosed in Note 10.

Credit risk

The management has implemented a credit policy, and constantly hedges the credit risk. The credit risk of the group involves potential damage caused by the business partners' inability to fulfil their obligations. The credit risk is expressed by the sum of all receivables (see Note 3). As of the balance sheet date, the company was not aware of any major risks related to accounts receivable (except for those deemed doubtful receivables). According to group risk management principles, short-term free financial resources are allowed to be deposited in credit institutions overnight and short-term deposits as well as in interest and money market funds.

The following principles are considered related to short term free financial resources;

- - securing liquidity;
- - capital preservation;
- - revenue generation.

Interest risk

The company's loan liabilities have a floating interest rate (depending on the *Euribor* fluctuations). Average interest rates did not rise during the financial year. The group has taken a loan with a floating interest rate from Nordea bank in 2006. In 2007, the group took a new loan with a floating interest rate from Nordea Investment Bank for the purpose of interest rate swap (see Note 2).

The below table gives an overview of the exposure of the group's profit-before-income-tax to potential interest rate fluctuations (through loans with a floating interest rate).

<b>2008</b>	<b>Increase/decrease in base points</b>	<b>Effect on profit before income tax</b>
Euribor	50	-3 165
Euribor	-50	3 165

<b>2007</b>	<b>Increase/decrease in base points</b>	<b>Effect on profit before income tax</b>
Euribor	50	- 1 118
Euribor	-50	1 118

Currency risk

The company will hedge any currency risks related to assets and liabilities. Assets and liabilities denominated in euros are considered neutral assets and liabilities as regards currency risk. In order to hedge currency risks, the company settles accounts mostly in Estonian kroons and euros (the exchange rate has been fixed at 1 EUR = 15.6466 EEK).

The group had no material open currency positions as of the end of the financial year, or the previous period.

Capital management

In the last few years, the group has used external financing for investments made in non-current assets. The resolution on the dividend payment shall be passed by the Government of the Republic in accordance with the Participation in Legal Persons in Private Law by the State Act.

Hedging the business risk

In order to hedge business-related risks, the company uses, among other measures, the risk transition method. The company's buildings, other facilities, equipment and technology have been insured for a maximum of 726 million kroons (1,6 million kroons in 2007).

Transportation vehicles used for traffic outside the airport premises have been insured against insurance events caused both by own employees and third parties.

In addition to property insurance, the company holds a liability insurance policy for receivables arising from business risks for a maximum of 1,565 million kroons ( 1 565 million kroons in 2007). Rescue service staff has been insured against accidents at work.

**Note 24 Balance sheet of Tallinn Airport Ltd (parent company)**

in thousands of kroons	31.12.2008	31.12.2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	207 501	43 769
Derivative instruments	0	5 027
Receivables	37 165	151 264
Prepayments	2 227	1 351
Inventories	544	1 562
<b>Total current assets</b>	<b>247 437</b>	<b>202 973</b>
<b>Investment property</b>	<b>440</b>	<b>466</b>
<b>Non-current assets</b>		
Long-term financial investments	16 078	16 078
Property, plant and equipment	2 091 199	1 355 067
Intangible assets	10 548	12 113
<b>Total non-current assets</b>	<b>2 101 747</b>	<b>1 367 180</b>
<b>TOTAL ASSETS</b>	<b>2 365 702</b>	<b>1 586 697</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Borrowings	97 413	37 501
Derivative instruments	9 478	0
Payables	179 881	164 668

<b>Total current liabilities</b>	<b>286 772</b>	<b>202 169</b>
<b>Non-current liabilities</b>		
Long-term borrowings	540 883	257 477
Long-term provisions	0	3 154
Government grants allocated for property, plant and equipment	949 949	547 001
<b>Total non-current liabilities</b>	<b>1 490 832</b>	<b>807 632</b>
<b>TOTAL LIABILITIES</b>	<b>1 777 604</b>	<b>1 009 801</b>
<b>OWNER'S EQUITY</b>		
Share capital	359 859	359 859
Mandatory reserve	35 986	22 855
Retained earnings	181 052	94 602
Profit for the financial year	11 201	99 580
<b>TOTAL OWNER'S EQUITY</b>	<b>588 098</b>	<b>576 896</b>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>2 365 702</b>	<b>1 586 697</b>

**Note 25 Income statement of Tallinn Airport Ltd (parent company)**

in thousands of kroons	2008	2007
<b>REVENUE</b>		
Revenue	388 529	362 297
Government grants allocated for property, plant and equipment	36 173	11 419
Government grants allocated for operating expenses	13 000	12 000
Other income	3 495	4 377
<b>TOTAL REVENUE</b>	<b>441 197</b>	<b>390 093</b>
<b>EXPENSES</b>		
Goods, raw materials and services	133 104	99 080
Other operating expenses	19 153	11 347
Personnel expenses	107 753	87 424
Depreciation of non-current assets	141 201	88 267
Other expenses	1 394	1 050
<b>TOTAL EXPENSES</b>	<b>402 605</b>	<b>287 168</b>
<b>OPERATING PROFIT</b>	<b>38 592</b>	<b>102 925</b>
Total net financial items	-27 391	-3 345
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>11 201</b>	<b>99 580</b>

**Note 26 Cash flow statement of Tallinn Airport Ltd (parent company)**

in thousands of kroons	2008	2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from customers	586 364	348 795
Amounts paid to suppliers and personnel	-418 591	-199 207
Fund yield and interest received	2 654	1 927
Interest paid	-11 271	-7 376
Government grants	13 000	12 000
<b>Total cash flow from operating activities</b>	<b>172 156</b>	<b>156 139</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	-865 972	-480 363
Proceeds from disposals of property, plant and equipment	639	345
<b>Total cash flow from investing activities</b>	<b>-865 333</b>	<b>-480 018</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Loan repayment	-36 480	-36 480
Loans received	375 518	125 173
Government grants received	517 871	239 590
<b>Total cash flow from financing activities</b>	<b>856 909</b>	<b>328 283</b>
<b>NET CASH FLOW</b>	<b>163 732</b>	<b>4 404</b>
Cash and cash equivalents at the beginning of the period	43 769	39 365
Cash and cash equivalents at the end of the period	207 501	43 769
<b>Change in cash and cash equivalents</b>	<b>163 732</b>	<b>4 404</b>

Cash and cash equivalents in the cash flow statement correspond to the cash and cash equivalents in the balance sheet.

**Note 27 Statement of changes in equity of Tallinn Airport Ltd (parent company)**

in thousands of kroons	Share capital	Mandatory reserve	Retained earnings	Total owner's equity
<b>Owner's equity as of 31.12.2006</b>	<b>144 872</b>	<b>22 855</b>	<b>309 589</b>	<b>477 317</b>
Profit for 2007	0	0	99 580	99 580
Bonus issue	214 987	0	-214 987	0
<b>Owner's equity as of 31.12.2007</b>	<b>359 859</b>	<b>22 855</b>	<b>194 182</b>	<b>576 897</b>
Profit for 2008	0	0	11 201	11 201
Reserve increase	0	13 130	-13 130	0
<b>Owner's equity as of 31.12.2008</b>	<b>359 859</b>	<b>35 986</b>	<b>192 252</b>	<b>588 097</b>

**Note 28 Restated statement of changes in equity of Tallinn Airport Ltd (parent company)**

<b>in thousands of kroons</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Parent company's unconsolidated owner's equity	588 097	576 896
Net book value of subsidiary in the parent company's unconsolidated balance sheet	-16 078	-16 078
Value of subsidiaries, calculated based on the equity method	25 118	19 511
<b>Total</b>	<b>597 137</b>	<b>580 329</b>

## SIGNATURES TO THE ANNUAL REPORT

The Management Board has prepared the management report and financial statements for 2008. The Management Board confirms the correctness of the data presented in the Annual Report.

### **Management Board:**

Rein Loik	Chairman of the Management Board_____	_____ 2009
Einari Bambus	Member of the Management Board_____	_____ 2009
Aarne Orav	Member of the Management Board_____	_____ 2009

The Supervisory Board has reviewed and approved the Annual Report submitted by the Management Board, consisting of the management report, financial statements as well as the attached auditor's report and profit allocation proposal. The Supervisory Board confirms the correctness of the data presented in the Annual Report.

### **Supervisory Board:**

Toivo Jürgenson	Chairman of the Supervisory Board_____	_____ 2009
Peeter Laurson	Member of the Supervisory Board _____	_____ 2009
Tatjana Muravjova	Member of the Supervisory Board _____	_____ 2009
Rannar Vassiljev	Member of the Supervisory Board _____	_____ 2009
Väino Linde	Member of the Supervisory Board _____	_____ 2009
Viljar Arakas	Member of the Supervisory Board _____	_____ 2009

## **AUDITOR'S REPORT**

**PROFIT ALLOCATION PROPOSAL**

Retained earnings as at 31.12.2007:	184 484 111
Net profit for 2008	16 674 640

**Total distributable profit as of 31 December 2008:** **201 158 751**

The Management Board proposes not to distribute the net profit for 2008 in the amount of **16,674,640**.

**Retained earnings after profit allocation:** **201 158 751**

Rein Loik                      Chairman of the Management Board \_\_\_\_\_ 2009

Einari Bambus              Member of the Management Board \_\_\_\_\_ 2009

Aarne Orav                    Member of the Management Board \_\_\_\_\_ 2009